

August 4, 2010

Randy Sekany  
President  
San Jose Fire Fighters, IAFF, Local 230  
425 E. Santa Clara Street, Suite 300  
San Jose, CA 95113

**Re: Negotiations with the San Jose Fire Fighters**

Dear Randy:

As you know, the City's goal has been to reach an agreement with the San Jose Fire Fighters (IAFF, Local 230) that would generate enough savings to restore Fire Department services that unfortunately had to be eliminated as part of the very difficult decisions the City Council made in June to balance a \$118.5 million budget deficit. Unfortunately, we have not made progress towards achieving an agreement, and as a result, 49 firefighters were recently laid off and a Fire Truck and four Fire Engines were taken out of service.

Although we can no longer avoid the layoffs since they have unfortunately already taken place, our goal now is to reach an agreement with Local 230 that would include sufficient concessions to allow us to hire back those 49 firefighters as quickly as possible and restore the services to the community.

We appreciate the proposals that Local 230 has made, including the most recent proposal sent via email on Sunday, August 1<sup>st</sup>. Unfortunately, however, the recent proposal is over \$6 million short of the concessions needed in order to hire back the 49 firefighters that were laid off and restore the services to the community.

The primary savings from Local 230's proposals are from the proposal that firefighters would make additional retirement contributions. The proposed 5%-5.25% in increased retirement contributions has been contained in Local 230's proposals since April. Combined with the health care changes first proposed by Local 230 in June, the savings generated from Local 230's proposed pay and benefit concessions is approximately \$4.17 million. The reduction in pay and benefits in Local 230's proposals, including the proposal made on August 1<sup>st</sup>, have remained the same since June.

**Concessions Needed To Restore Fire Department Services and Rehire Laid Off Firefighters**

In order to restore the Fire Truck and the four Fire Engines that have been taken out of service and to rehire the 49 firefighters that have been laid off, we would need to reach an agreement with Local 230 that generates \$10.633 million in verifiable compensation reductions in Fiscal Year 2010-2011. This is equivalent to an 8.91% total compensation reduction. Local 230's proposal falls significantly short and only generates \$4.17 million, compared to the \$10.633 million needed to restore the Truck and the four Engines, as demonstrated in the following chart:

Fire Service	Per Apparatus Cost	Total Compensation Reduction
Truck Company 3	\$2,380,134	
Engine Company 35	\$2,170,546	
Engine Company 34	\$1,944,474	
Engine Company 33	\$2,242,537	
Engine Company 30	\$1,895,756	
<b>Total Amount Needed to Restore Fire Services</b>	<b>\$10,633,447</b>	<b>8.91%</b>
<b>Local 230 Proposal</b>	<b>\$4,176,563</b>	<b>3.50%</b>
<b>Additional Concessions Needed</b>	<b>\$6,456,884</b>	<b>5.41%</b>

#### Comparison of Savings from Agreement with the San Jose Police Officers' Association

We have been asked why the recent agreement with the San Jose Police Officers' Association (POA) was sufficient to avoid the layoffs of 70 police officers, but the Local 230 proposal has not been accepted in order to avoid the layoffs of firefighters. The reason is that the proposal the POA made to the City generated over \$8 million in pay and benefit reductions, and this was enough to allow the City to agree to a no layoff guarantee for this fiscal year and avoid the layoffs of 70 police officers.

As a comparison, the POA proposal generated approximately \$8.22 million, while Local 230's proposal only generates \$4.17 million in concessions, as illustrated below.

Proposal	Employees	Savings Generated
POA Proposal	1200	\$8.22M
Local 230 Proposal	647	\$4.17M
Difference	553	\$4.05M

As you know, the City has 11 unions ranging from less than 50 employees to over 1,800. If all bargaining units agreed to the same percentage reduction in pay and benefits, the amount of savings generated from the larger bargaining units is much greater than the smaller bargaining units. Since the POA represents 1200 employees, the POA's proposal generated significantly more savings than Local 230's proposals.

### **Total Compensation Costs**

The City's costs for employees is not just salary and other cash compensation, but includes the cost of benefits, such as healthcare and retirement benefits. Even without salary increases, the City's costs per employee have increased significantly from last fiscal year to this fiscal year.

The following chart shows a comparison of the budgeted costs for each employee represented by Local 230 from last year to this year:

<b>Local 230 Salary &amp; Benefits<sup>1</sup></b>			
	<b>Local 230 Average Per Position</b>		
	<b>2009-2010</b>	<b>2010-2011</b>	<b>% Increase</b>
<b>BASE PAYROLL<sup>2</sup></b>	\$120,206	\$119,611	-0.5%
<b>RETIREMENT BENEFITS</b>	\$31,671	\$49,813	57.3%
<b>HEALTH/DENTAL BENEFITS</b>	\$10,935	\$11,661	6.6%
<b>OTHER BENEFITS</b>	\$2,636	\$3,373	28.0%
<b>TOTAL (ALL BENEFITS)<sup>3</sup></b>	<b>\$45,242</b>	<b>\$64,847</b>	<b>43.3%</b>
<b>AVERAGE COST PER POSITION</b>	<b>\$165,448</b>	<b>\$184,458</b>	<b>11.5%</b>

The City's average per employee cost for employees represented by Local 230 increased from \$165,448 last fiscal year to \$184,458 this fiscal year, which is an 11.5% increase in the average cost per employee. This increase is primarily the result of the very large increase in the City's contributions for retirement benefits. Even with an 8.91% reduction in total compensation, the City's costs per employee will still increase from last year to this year, but it will be sufficient to restore the Fire Truck and four Fire Engines and allow us to hire back the 49 firefighters that were laid off.

### **Retirement Benefit Reform**

We sincerely appreciate that Local 230 recognizes the need for retirement benefit reform and that you have proposed a second tier for pension benefits. We agree that a second tier is a necessary part of retirement benefit reform, but we need to work together further on what the second tier

<sup>1</sup> Salary and Fringe Benefit Costs for the 2009-2010 Adopted Budget & the 2010-2011 Proposed Budget

<sup>2</sup> Includes special/premium pays for all employees.

<sup>3</sup> Does not include worker's compensation cost or overtime. The figures above are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.

should be. Given the significant cost of retiree healthcare benefits for the City and employees, we also want to work together on a second tier for retiree healthcare benefits.

Since these negotiations would take time, if we are able to reach an agreement very soon on a new contract, we would agree to begin negotiations on a second tier within 30 days of a ratified agreement. If we do not reach an agreement soon, these issues are currently on the City's list of issues for these negotiations.

### **Alternate Deployment Model**

We are glad to see that Local 230 is committed to work collaboratively with the new Fire Chief in ways to most effectively and efficiently deliver Fire services to the community. Particularly given the new economic reality of reduced resources, it becomes more important to ensure that the City is delivering services in the most cost effective and efficient manner possible. If any changes in the deployment of Fire resources that the Fire Chief is interested in implementing are subject to negotiations with Local 230, we will meet and confer with you at that time.

### **Request for Vote of the San Jose Firefighters**

We recognize that an 8.91% reduction in total compensation is a sacrifice. However, that sacrifice would allow the City to restore the Fire Truck and four Fire Engines and hire back the 49 firefighters. The 8.91% reduction is less than the 10% reduction that approximately 1800 City employees and officials have taken in order to save City services and jobs.

The City Council requests that Local 230 ask the membership to vote on whether they are willing to accept an 8.91% reduction in total compensation effective this fiscal year. The savings would be used to restore the Fire Department services that have been eliminated and rehire the 49 firefighters that have been laid off. We ask that as much of the 8.91% be on-going savings and not savings that stop in June 2011. One-time savings would only allow us to restore services and firefighter jobs through June 2011.

If the membership agrees to take an 8.91% reduction in total compensation, the City will immediately negotiate with Local 230 on the combination of pay and benefit reductions that would total an 8.91% reduction, including the portion that is one-time and the portion that would be on-going. The reductions would need to result in \$10.633 million of verifiable savings this fiscal year. In addition, the agreement would need to include the transition to fully pre-fund retiree healthcare benefits, as the City has proposed, effective as soon as the agreement is ratified by the membership and approved by the City Council.

Local 230's most recent proposals include making additional retirement contributions to offset the City's retirement contributions. As you know, the City currently pre-pays its retirement contributions at the beginning of the Fiscal Year for both retirement plans. The pre-payment was made in July, however, the City has postponed pre-payment of 5.25% for Fire employees in the Police and Fire Department Retirement Plan, pending a possible agreement with Local 230. It is costing the City money for every day that we withhold this pre-payment. Therefore, if we do not reach an agreement in the next week or two, the City will need to decide to make the pre-payment. Once the payment is made, Local 230's proposal on additional retirement contributions will no longer generate savings for the City to restore the Fire Department services that have been eliminated and rehire the firefighters that have been laid off. If we subsequently reach an agreement, we would need to find alternative pay and benefit reductions.

We understand and respect that it is the decision of Local 230's Executive Board to call for a vote of the membership, and we hope that the Executive Board agrees to do so. We are hopeful that the membership will accept an 8.91% reduction in total compensation in Fiscal Year 2010-2011 in order to restore the Fire Department services to the community that have been eliminated and rehire the 49 firefighters that have been laid off.

We look forward to hearing back from you as soon as possible.

Sincerely,



Alex Gurza  
Director of Employee Relations

c: Jeff Welch, Local 230 Vice President  
Juan Diaz, Local 230 Representative  
Soren Coats, Local 230 Representative  
Chris Platten, Local 230 Legal Counsel  
Teresa Reed, Assistant Fire Chief  
Aracely Rodriguez, City Negotiating Team Member  
Marcus Hermanson, City Negotiating Team Member